

**Before the
Federal Communications Commission
Washington, D.C. 20554**

In the Matter of)	
)	
)	
Verizon Petition for Emergency Declaratory and Other Relief)	WC Docket No. 02-202
)	
)	

POLICY STATEMENT

Adopted: December 20, 2002

Released: December 23, 2002

By the Commission:

I. INTRODUCTION

1. This policy statement responds to a request in a Petition for Emergency Declaratory and Other Relief filed by Verizon asking, among other things, that the Commission “permit carriers expeditiously to revise their tariffs to require advance payments, security deposits, and shorter notice periods where necessary to ensure adequate assurance of payment by their customers. . . .”¹ In this policy statement we provide general guidance to incumbent local exchange carriers (LECs) seeking to revise the deposit and payment provisions of their interstate access tariffs.²

II. BACKGROUND

2. On July 24, 2002, Verizon filed a Petition for Emergency Declaratory and Other Relief.³ The petition describes Verizon’s view of the potential impact of WorldCom’s bankruptcy filing in July 2002,⁴ as well as other recent telecommunications industry bankruptcy filings.⁵ According to Verizon, to achieve the “vital goal” of “ensuring continuity of service by limiting the financial fallout from the difficulties facing WorldCom and other firms in the

¹ *Petition for Emergency Declaratory and Other Relief*, WC Docket No. 02-202 at 3 (filed July 24, 2002) (*Verizon Petition*).

² By issuing this policy statement we do not prejudge the outcome of any tariff investigation that we conduct according to the standards set forth in sections 201 through 205 of the Communications Act of 1934, as amended. 47 U.S.C. §§ 201-205. We believe, however, that permitting carriers to revise their tariffs to require additional deposits may not necessarily satisfy these statutory standards. Therefore, we encourage incumbent LECs to explore narrower options to protect themselves from the risk of nonpayment and to improve the accuracy and timeliness of their interstate access bills. *See also* paras. 25-28, *infra*.

³ Verizon Petition at 3.

⁴ *See In re WorldCom, Inc., et al, Debtors*, Case No. 02-13533 (AJG), 2002 WL 1732647 (Bankr. S.D.N.Y. July 22, 2002).

⁵ Verizon Petition at 1-2.

industry. . . it is essential that surviving carriers be able to protect their ability to obtain payment for services that they are required to provide to financially troubled companies.”⁶ Due to what it describes as the “current industry-wide crisis,” Verizon urges the Commission to “permit carriers to revise their tariffs to require advance payments, security deposits, and shorter notice periods where necessary to ensure adequate assurance of payment. . . .”⁷ Shortly after Verizon filed its petition, we sought public comment on it.⁸ A number of carriers, including interexchange carriers, competitive LECs, resellers, and wireless providers, filed oppositions to the Verizon petition, while other incumbent LECs generally support the petition.⁹

3. In addition to these requests, Verizon’s petition asks the Commission to: “[1] inform bankruptcy courts that carriers should receive payment in advance or other similar protections to obtain adequate assurance of payment for services provided during the pendency of their customers’ bankruptcy proceedings; [2] confirm that carriers wishing to receive the benefits of existing service arrangements of bankrupt carriers must, consistent with bankruptcy law (and binding federal tariffs), pay a cure of prior indebtedness on those services; and [3] direct competitive local exchange carriers. . . to provide the information needed successfully to coordinate carrier-to-carrier transfers.”¹⁰ We do not address these additional requests here but plan to do so in a future order.

4. Almost concurrently with the filing of its petition, Verizon filed specific revisions to its interstate access tariffs seeking to broaden its discretion to require security deposits and advance payments, and to shorten the notice period required before it may take action (e.g., refusal to accept new orders or process existing orders, discontinuance of service) against customers who are not paying their interstate access bills on time.¹¹ Several other incumbent LECs have filed similar tariff revisions.¹² The proposed tariffs vary with respect to how they respond to the risk of nonpayment. While some require only additional deposits, others allow an option of an additional deposit or an advance payment. The proposed tariffs also vary with respect to the particular criteria that would trigger additional deposit or advance payment obligations, the use of shortened notice periods for the refusal of orders and discontinuance of service, and the form and conditions applicable to deposits or advance payments. The proposed tariffs are alike in that, citing increasing uncollectibles, several recent bankruptcies, or general industry financial turmoil, they all seek to provide the filing incumbent LECs with greater protection against nonpayment.¹³ In addition, the National Exchange Carrier Association

⁶ *Id.* at 1.

⁷ *Id.* at 2.

⁸ *Wireline Competition Bureau Seeks Comment on Verizon Petition For Emergency Declaratory and Other Relief*, WC Docket No. 02-202, Public Notice, DA No. 02-1859 (rel. July 31, 2002).

⁹ All commenting parties are listed in Appendix A.

¹⁰ Verizon Petition at 3.

¹¹ *Verizon Telephone Companies (Verizon), Tariff FCC Nos. 1, 11, 14 and 16, Transmittal No. 226* (filed July 25, 2002).

¹² These incumbent LECs are Iowa Telecommunications Services, Inc. (Iowa Telecom), BellSouth Telecommunications, Inc., (BellSouth); SBC Communications, Inc., (SBC), and the National Exchange Carrier Association (NECA).

¹³ *Iowa Telecom, Tariff FCC No. 1, Transmittal No. 22* (filed July 3, 2002); *BellSouth, Tariff FCC No. 1, Transmittal No. 657* (filed July 19, 2002); *Ameritech Operating Companies (Ameritech), Tariff FCC No. 2, Transmittal No. 1312*, *Nevada Bell Telephone Companies (Nevada Bell), Tariff FCC No. 1, Transmittal No. 20*,

(NECA) and Madison River Telephone Company (Madison River) filed tariff revisions seeking to increase their interstate access rates to cover the claimed increased cost of rising uncollectibles,¹⁴ and Verizon and SBC filed interstate access tariff revisions seeking to increase end user universal service charges in light of increasing residential and business customer uncollectibles for universal service support.¹⁵ Many parties petitioned for rejection or suspension and investigation of most of these proposed tariff revisions. The Wireline Competition Bureau determined that the petitions raised substantial questions regarding the lawfulness of the proposed tariff revisions and suspended all of them for five months and set them for investigation.¹⁶ Investigations of all the tariff revisions have begun and are pending,¹⁷ except for the Iowa Telecom tariff revision, which Iowa Telecom has withdrawn,¹⁸ and the Verizon and SBC end user universal service charge increases, which have been allowed to take effect.¹⁹

Pacific Bell Telephone Company (Pacific Bell), Tariff FCC No. 1, Transmittal No. 77, Southern New England Telephone Companies (SNET), Tariff FCC No. 39, Transmittal No. 272, Southwestern Bell Telephone Company (SWBT), Tariff FCC No. 73, Transmittal No. 2906 (filed Aug. 2, 2002) (referred to collectively as SBC's tariff); NECA, Tariff FCC No. 5, Transmittal No. 951 (filed Aug. 21, 2002).

¹⁴ *NECA, Tariff FCC No. 5, Transmittal No. 952 (filed Aug. 30, 2002); Madison River Telephone Company, LLC (Madison River), Tariff FCC No. 1, Transmittal No. 9 (filed Sept. 24, 2002).*

¹⁵ *Verizon, Tariff FCC Nos. 1, 11, 14, and 16, Transmittal No. 243; SWBT, Tariff FCC No. 73, Transmittal No. 2913; Ameritech, Tariff FCC No. 2, Transmittal No. 1318; SNET, Tariff FCC No. 39, Transmittal No. 774; Pacific Bell, Tariff FCC No. 1, Transmittal No. 82; Nevada Bell, Tariff FCC No. 1, Transmittal No. 22 (filed Sept. 16, 2002).*

¹⁶ *Iowa Telecom, Tariff FCC No. 1, Transmittal No. 22, Order, DA 02-1732 (WCB rel. July 17, 2002); BellSouth, Tariff FCC No. 1, Transmittal No. 657, Order, DA 02-1886 (WCB rel. Aug. 2, 2002); Verizon, Tariff FCC Nos. 1, 11, 14 and 16, Transmittal No. 226, Order, DA 02-2055 (WCB rel. Aug. 8, 2002); Ameritech, Tariff FCC No. 2, Transmittal No. 1312, Nevada Bell, Tariff FCC No. 1, Transmittal No. 20, Pacific Bell, Tariff FCC No. 1, Transmittal No. 77, SNET, Tariff FCC No. 39, Transmittal No. 772, SWBT Tariff FCC No. 73, Transmittal No. 2906, Order, DA 02-2039 (WCB rel. Aug. 16, 2002); NECA, Tariff FCC No. 5, Transmittal No. 951, Order, DA 02-2141 (WCB rel. Sept. 4, 2002); NECA, Tariff FCC No. 5, Transmittal No. 952, Order, DA 02-2263 (WCB rel. Sept. 13, 2002); Madison River, Tariff FCC No. 1, Transmittal No. 9, Order, DA 02-2583 (WCB rel. Oct. 8, 2002); Verizon, Tariff FCC Nos. 1, 11, 14, and 16, Transmittal No. 243, SWBT, Tariff FCC No. 73, Transmittal No. 2913, Ameritech, Tariff FCC No. 2, Transmittal No. 1318, SNET Tariff FCC No. 39, Transmittal No. 774, Pacific Bell, Tariff FCC No. 1, Transmittal No. 82, Nevada Bell, Tariff FCC No. 1, Transmittal No. 22, Order, DA 02-2472, WCB/Pricing No. 02-27 (WCB rel. Sept. 30, 2002). The Wireline Competition Bureau suspended for one day, imposed an accounting order, and set for investigation certain of the SBC universal service tariffs.*

¹⁷ *Iowa Telecom, Tariff FCC No. 1, Transmittal No. 22, Order, WC Docket No. 02-303, DA 02-2317 (WCB rel. Sept. 18, 2002); BellSouth, Tariff FCC No. 1, Transmittal No. 657, Order, WC Docket No. 02-304, DA 02-2318 (WCB rel. Sept. 18, 2002); Verizon, Tariff FCC Nos. 1, 11, 14 and 16, Transmittal No. 226, Order, WC Docket No. 02-317, DA 02-2522 (WCB rel. Oct. 7, 2002); Ameritech, Tariff FCC No. 2, Transmittal No. 1312, Nevada Bell, Tariff FCC No. 1, Transmittal No. 20, Pacific Bell, Tariff FCC No. 1, Transmittal No. 77, SNET, Tariff FCC No. 39, Transmittal No. 772, SWBT Tariff FCC No. 73, Transmittal No. 2906, Order, WC Docket No. 02-319, DA 02-2577 (WCB rel. Oct. 10, 2002); NECA, Tariff FCC No. 5, Transmittal No. 951, Order, WC Docket No. 02-340, DA 02-2948 (WCB rel. Oct. 31, 2002); NECA, Tariff FCC No. 5, Transmittal No. 952, Order, WC Docket No. 02-356, DA 02-3100 (WCB rel. Nov. 8, 2002); Madison River, Tariff FCC No. 1, Transmittal No. 9, Order, WC Docket No. 02-371, DA 02-3284 (WCB rel. Nov. 25, 2002).*

¹⁸ *Iowa Telecom, Tariff FCC No. 1, Transmittal No. 25, Letter from James U. Troup and Michael B. Adams, Jr., counsel for Iowa Telecom to Marlene H. Dortch, Secretary, Federal Communications Commission (filed Oct. 15, 2002).*

¹⁹ After SBC provided additional information that satisfied the concerns leading to suspension of its end user universal service charge increase, the Wireline Competition Bureau terminated its investigation of this tariff, and

5. The Wireline Competition Bureau will continue to investigate all of these proposed tariff revisions and resolve issues regarding their reasonableness in those investigations. Nonetheless, Verizon's petition and the number of proposed incumbent LEC tariff revisions raise issues of industry-wide concern, including the risk of nonpayment and the additional measures necessary to protect against that risk. In investigating the proposed tariffs, and in reviewing Verizon's Emergency Petition request here, we apply the standards set forth in sections 201(b) and 202(a) of the Act.²⁰ Section 201(b) provides that, "[a]ll charges, practices, classifications and regulations for and in connection with [a] communication service, shall be just and reasonable. . . ." Section 202 (a) states that, "[i]t shall be unlawful for any common carrier to make any unjust or unreasonable discrimination in charges, practices, classifications, regulations, facilities, or services . . . directly or indirectly, by any means or device, or to make or give any undue or unreasonable preference or advantage . . . or to subject any particular person, class of persons, or locality to any undue or unreasonable prejudice or disadvantage." Further, sections 204 and 205 of the Act authorize the Commission to investigate the lawfulness of carriers' charges and practices, and to prescribe just and reasonable charges and practices.²¹ In determining whether the incumbent LECs' proposed deposit tariffs satisfy the statutory standards, we must balance their interest in protecting themselves from the risk of allegedly increasing uncollectibles against the interests of their customers in avoiding unreasonably burdensome deposit requirements.²²

6. As we explain in greater detail below, the record in this proceeding indicates that the proposed tariff revisions are not narrowly tailored to meet the incumbent LECs' need for additional protection against nonpayment without imposing undue burdens on access customers in general. For these reasons, we encourage the incumbent LECs to consider whether the following additional protections against nonpayment might better balance the interests of the LECs and their customers:

1. Revise interstate access tariffs to define the "proven history of late payment" trigger for requiring a deposit to include a failure to pay the undisputed amount of a monthly bill in any two of the most recent twelve months, provided that both the past due period and the amount of the delinquent payment are more than

allowed it to take effect. *See Verizon, Tariff FCC Nos. 1, 11, 14, and 16, Transmittal No. 243, SWBT, Tariff FCC No. 73, Transmittal No. 2913, Ameritech, Tariff FCC No. 2, Transmittal No. 1318, SNET, Tariff FCC No. 39, Transmittal No. 774, Pacific Bell, Tariff FCC No. 1, Transmittal No. 82, Nevada Bell, Tariff FCC No. 1, Transmittal No. 22, Order on Reconsideration, DA 02-2898 (WCB rel. Oct 29, 2002).* Verizon withdrew its initial tariff increasing end user universal service charges, *Verizon, Tariff FCC Nos. 1, 11, 14, and 16, Transmittal No. 243, SWBT, Tariff FCC No. 73, Transmittal No. 2913, Ameritech, Tariff FCC No. 2, Transmittal No. 1318, SNET, Tariff FCC No. 39, Transmittal No. 774, Pacific Bell, Tariff FCC No. 1, Transmittal No. 82, Nevada Bell, Tariff FCC No. 1, Transmittal No. 22, Order on Reconsideration, DA 02-2854 (WCB rel. Oct. 28, 2002),* and then submitted a revised tariff with additional supporting information, which the Wireline Competition Bureau allowed to take effect. *Verizon, Tariff FCC Nos. 1, 11, 14, and 16, Transmittal No. 252 (filed Oct. 15, 2002).*

²⁰ 47 U.S.C. §§ 201(b) and 202(a).

²¹ *Id.* at §§ 204 and 205.

²² *See Investigation of Access and Divestiture Related Tariffs*, CC Docket No. 83-1145, Phase I Order, 97 FCC 2d 1082, 1169 (1984) (*Access Tariff Order*); *Annual 1987 Access Tariff Filings*, Memorandum Opinion and Order, 2 FCC Rcd 280, 304, 318 (1986) (*Annual 1987 Access Tariff Order*).

de minimis.²³

2. Reduce the notice period for refusal or discontinuance of service from 30 days to some shorter period for customers that receive bills quickly enough to allow review and dispute.²⁴
3. Accelerate billing cycles from 30 days to some shorter period to reduce exposure to pre-bankruptcy petition debt and other possible nonpayment.²⁵
4. Bill in advance for usage-based services currently billed in arrears, based on average usage over a sample period, perhaps phasing in the first advance bill over a period of several months.²⁶

III. DISCUSSION

7. *Existing Protections and Commission Policies.* A short summary of current tariff deposit provisions and established Commission policies concerning deposits and uncollectibles provides a useful background for a discussion of the issues presented by Verizon's petition. Existing incumbent LEC interstate access tariffs contain protections for uncollectibles. These provisions have existed since the first interstate access tariffs of 1984. In reviewing these original access tariffs, the Commission rejected the LECs' proposed deposit language, which would have allowed the LECs to require deposits from every access customer except AT&T, as both unreasonably onerous to customers and potentially discriminatory in violation of sections 201(b) and 202(a) of the Act. Instead the Commission permitted LECs to require deposits only from those customers with a proven history of late payment or without established credit, but excepted from the deposit requirement any customer that was a successor of a company with established credit.²⁷ In reaching this conclusion, the Commission "recognize[d] that it is prudent for the telephone company to seek to avoid non-recoverable costs imposed by bad credit risks" but balanced this need against the burdens placed on access customers.²⁸ Thus the Commission

²³ See, e.g., *Petition for Emergency Declaratory and Other Relief*, WC Docket No. 02-202, Letter from Michael J. Hunseder, counsel to AT&T to Marlene H. Dortch, Secretary, Federal Communications Commission dated Dec. 9, 2002 at 1 (*AT&T Dec. 9 Ex Parte Letter*).

²⁴ We note, for example, that SBC's proposed tariff would reduce the notice period for certain customers from the current 30 days to 15 days. See, e.g., *SWBT, Tariff FCC No. 73, Transmittal No. 2906*, 6th Revised Page 2-20, section 2.1.6(A).

²⁵ Bankruptcy courts frequently require utilities serving bankrupt customers to bill for their services bi-weekly. See Opposition of CTC Communications Corp., DSL.net Communications, LLC, Focal Communications Corp., Level 3 Communications, LLC, Pac-West Telecomm, Inc., and US LEC Corp. at 8 and Exh. 1 (filed Aug. 15, 2002) (*CTC et al. Opposition*); *BellSouth Tariff FCC No. 1, Transmittal No. 657*, Letter from Jonathan D. Lee, Vice President, Regulatory Affairs, CompTel to Tamara Preiss Chief, Pricing Division [sic] at 2 (filed July 1, 2002) (*CompTel July 1 Ex Parte Letter*).

²⁶ Advance billing means, for example, that a bill is generated on January 1, due February 1, for services provided in January. Advance billing is not the same as advance payment. Advance payment means, for example, that a bill would be generated on December 1, due January 1, for services provided in January.

²⁷ *Access Tariff Order*, 97 FCC 2d at 1169.

²⁸ *Id.*

eliminated provisions that it considered extremely burdensome, potentially anticompetitive, too broadly drawn, or simply unfair.²⁹

8. The last and only time the Commission reviewed a proposed modification to the 1984 deposit provisions was in 1987 when BellSouth sought revisions similar to certain of the proposed revisions we discuss here, and for a similar reason: increasing telecommunications industry bankruptcies.³⁰ Specifically, BellSouth sought to increase allowable deposits by 50 percent and to reduce the notice period to refuse orders or terminate service for nonpayment from 30 days to 15 days.³¹ The Commission did not allow the deposit increase, and it allowed a shortened, 15-day notice period only if the customer received its bill within three days after the billing date.³² In reaching its conclusion regarding the shortened notice period, the Commission found that the “advantages of BellSouth’s revisions are outweighed by the disadvantages to customers,” noting in particular that customers needed more than 15 days to review BellSouth’s chronically late bills.³³ With respect to increased deposits, the Commission found that BellSouth had not adequately demonstrated a need for the increase despite telecommunications industry bankruptcies, and that, “the advantages to be gained by the proposed revisions seem to be outweighed by the disadvantages to customers that may not pose a risk to BellSouth.”³⁴

9. In addition to these orders, the Commission’s ratemaking policies for incumbent LECs also account for interstate uncollectibles and provide for their recovery through interstate access charges. As a price cap carrier, Verizon’s rates at the time it entered price caps included a factor reflecting wholesale uncollectibles. Under price caps, the permitted price indexes are annually adjusted for changes in general economic conditions as reflected in the GDP-PI inflation index.³⁵ Price cap carriers experiencing a rise in uncollectibles resulting in interstate rates of return below 10.25 percent may, if eligible, seek a low-end adjustment, permitting the carrier to target a 10.25 percent rate of return.³⁶ Price cap carriers that are not eligible for a low-end adjustment because they have exercised pricing flexibility retain the right to demonstrate that earnings are low enough to warrant an above cap filing, or to seek an exogenous cost change, either of which would allow them to charge rates that exceed the current price caps.³⁷ For rate of return carriers, uncollectibles are already reflected in the rate base that they use to calculate the 11.25 percent allowed rate of return. An increase in uncollectibles will result in higher rates the following year. In the event of an extraordinary rise in uncollectibles, rate of return carriers may file mid-term corrections to raise their rates to target an 11.25 percent rate of return.³⁸

10. *Proposed Tariffs.* Because Verizon’s proposed tariff revisions are similar to the types

²⁹ *Id.*

³⁰ *Annual 1987 Access Tariff Order*, 2 FCC Rcd at 304, 318.

³¹ *Id.*

³² *Id.* at 305, 318. BellSouth apparently never implemented the shortened notice provision.

³³ *Id.* at 304.

³⁴ *Id.* at 318.

³⁵ 47 C.F.R. § 61.45(b).

³⁶ *Id.* § 61.45(d)(1)(vii).

³⁷ *Id.* § 61.45(d).

³⁸ *Id.* § 69.3(b). See, e.g., *NECA, Tariff FCC No. 5, Transmittal No. 952* (filed Aug. 30, 2002).

of additional protections sought by several incumbent LECs and are the subject of comments filed in response to Verizon's petition, we discuss the proposed Verizon tariff revisions to provide context for our consideration of the general issue of additional security against nonpayment. Where Verizon's tariff revisions differ significantly from other incumbent LEC tariff revisions, we discuss these differences.

11. Under its proposed revisions, Verizon may require at any time additional security deposits or advance payments from a customer based on any one of the following six criteria: (1) the customer has fallen in arrears in its account balance in any two months out of any consecutive twelve-month period; (2) the customer owes \$250,000 or more that is thirty days or more past due; (3) the customer or its parent (defined as an entity that owns an equity interest in more than 50 percent of the customer) informs Verizon or publicly states that it is unable to pay its debts as such debts become due; (4) the customer or its parent has commenced voluntary or involuntary receivership or bankruptcy; (5) the customer's or its parent's senior debt securities are below investment grade as defined by the Securities and Exchange Commission; or (6) the customer's or its parent's senior debt securities are rated the lowest investment grade rating category by a nationally recognized statistical rating organization and are put on review by the rating organization for a possible downgrade.³⁹

12. SBC's tariff revisions contain triggering provisions similar to Verizon's, but, for customers without securities rated by a credit rating agency, adds a Dun and Bradstreet rating of "fair" or Paydex score of "high risk."⁴⁰ Further, SBC's proposed tariff would seek additional security deposits or advance payments only from customers with impaired credit worthiness whose recent monthly interstate access bills from all SBC operating companies total \$1 million or more.⁴¹ The BellSouth and NECA tariffs have broader triggering provisions. BellSouth's proposed tariff would allow it to seek increased deposits from a customer whose credit worthiness decreases to a "commercially significant extent" or whose gross monthly billing has increased when compared to the monthly billing level used to determine any initial deposit.⁴² NECA's proposed tariff would allow incumbent LECs to seek increased deposits if a customer pays its bill late, the customer's monthly access bills increase, or if the incumbent LEC becomes aware that the customer's "credit worthiness is below a commercially acceptable level."⁴³ With one exception for certain SBC customers with impaired credit worthiness who are subject to a one-month deposit requirement, all the proposed tariffs retain a deposit amount of up to two months of interstate access billings.⁴⁴

13. Certain of the proposed tariffs contain provisions regarding advance payment, deposit refunds, and shortened notice intervals for refusing new orders or discontinuing service. Verizon's proposed revisions also allow it, at its option, to seek advance payments, which would not accumulate interest, in lieu of increased security deposits.⁴⁵ SBC's proposed revisions allow

³⁹ See, e.g., *Verizon, Tariff FCC No. 1, Transmittal No. 226*, 1st Revised Page 2-26, section 2.4.1(A)(2).

⁴⁰ See, e.g., *SWBT, Tariff FCC No. 73, Transmittal No. 2906*, Original Page 2-55.3, section 2.5.2(B).

⁴¹ See, e.g., *id.*

⁴² *BellSouth, Tariff FCC No. 1, Transmittal No. 657*, 2nd Revised Page 2-21.1, section 2.4.1(A).

⁴³ *NECA, Tariff FCC No. 5, Transmittal No. 951*, 2nd Revised Page 2-26.1, section 2.4.1(A) (2).

⁴⁴ See, e.g., *Verizon, Tariff FCC No. 1, Transmittal No. 226*, Original Page 2-26.2, section 2.4.1(A)(4).

⁴⁵ See, e.g., *id.* at Original Page 2-26.1, section 2.4.1(a)(3).

certain customers with impaired credit worthiness to decide to pay in advance or pay an increased deposit.⁴⁶ The BellSouth and NECA proposed revisions seek only increased deposits and no advance payments. BellSouth's proposed tariff allows customers 30 days to pay the increased deposit, while SBC would allow 21 days, NECA would allow 14 days, and Verizon would allow 10 days.⁴⁷ Under most of the proposed revisions, deposits would be refunded after one year of prompt payment if the customer no longer suffers from the impaired credit worthiness or other criteria that triggered the additional deposit request.⁴⁸ BellSouth would pay 12 percent annual interest on deposits, while SBC would pay interest at the most current US Treasury bill rate.⁴⁹ Finally, all of the proposed revisions except BellSouth's would shorten the notice period before which incumbent LECs can refuse to process new orders or discontinue service from the current 30 days to 15 or 10 days (SBC), 10 days (NECA) or seven days (Verizon).⁵⁰ The Verizon and SBC proposed tariffs would also allow these incumbent LECs to refuse new orders or discontinue service pursuant to these shortened notice periods to a customer failing to make a required payment to the Universal Service Fund.⁵¹

14. *Need for Additional Protection.* Based on our review of the record in this proceeding, we are concerned that the risk posed by uncollectibles may not be as great as alleged by certain carriers. We also have serious concerns about the proposed triggers for additional deposits, and whether they have the potential to be used against customers in a discriminatory manner. We are also concerned about the potential burden that increased deposits and advance payments would impose on interstate access customers. Nonetheless, given the current financial state of the industry, we believe that additional protections may be warranted, particularly those protections that would impose discipline on the billing and collection process. We do not believe, however, that additional deposit requirements are warranted at this time.

15. The Commission is aware that the telecommunications industry faces significant financial challenges. We appreciate the level of exposure of incumbent LECs, and particularly small and rural incumbent LECs, created by the WorldCom bankruptcy and other telecommunications industry bankruptcies and the millions of dollars of accrued but unpaid pre-petition interstate access charges at stake for Bell Operating Companies (BOCs) and other incumbent LECs. We acknowledge that future bankruptcies may occur and that incumbent LEC

⁴⁶ See, e.g., *SWBT, Tariff FCC No. 73, Transmittal No. 2906*, Original Page 2-55.3, section 2.5.2(B).

⁴⁷ See, e.g., *BellSouth, Tariff FCC No. 1, Transmittal No. 657*, Original Page 2-21.2, section 2.4.1(A); *SWBT, Tariff FCC No. 73, Transmittal No. 2906*, Original Pages 2-55.1 and 2-55.2, section 2.5.2(A); *NECA, Tariff FCC No. 5, Transmittal No. 951*, 2nd Revised Page 2-26.2, section 2.4.1(A)(2); *Verizon, Tariff FCC No. 1, Transmittal No. 226*, Original Page 2-26.2, section 2.4.1(A)(4).

⁴⁸ See, e.g., *Verizon, Tariff FCC No. 1, Transmittal No. 226*, Original Page 2-26.3, section 2.4.1(A)(4).

⁴⁹ *BellSouth, Tariff FCC No. 1, Transmittal No. 657*, Original Page 2-21.3, section 2.4.1(A); *SWBT, Tariff FCC No. 73, Transmittal No. 2906*, Original Page 2-55.2, section 2.5.2(A). The 1984 *Access Tariff Order* directed that, "within the bounds of relevant state laws, interest paid on customer deposits must be keyed to penalty interest charges to customers unless specifically justified." *Access Tariff Order*, 97 FCC 2d at 1145. Thus, for example, BellSouth charges 12 percent annual interest on late payments. *BellSouth Tariff FCC No. 1*, 5th Revised Page 2-23, section 2.4.1(B)(3)(b)(Mar. 24, 2000).

⁵⁰ See, e.g., *SWBT, Tariff FCC No. 73, Transmittal No. 2906*, 6th Revised Page 2-20, section 2.1.6(A); *NECA, Tariff FCC No. 5, Transmittal No. 951*, 2nd Revised Page 2-9, section 2.1.8(B); *Verizon, Tariff FCC No. 1, Transmittal No. 226*, 1st Revised Page 2-7, section 2.1.8(A).

⁵¹ See, e.g., *Verizon, Tariff FCC No. 1, Transmittal No. 226*, 1st Revised Page 2-8, section 2.1.8(A); *SWBT, Tariff FCC No. 73, Transmittal No. 2906*, 1st Revised Page 2-22, section 2.1.6(C).

risk of nonpayment is increasing. We also have little doubt that incumbent LEC uncollectibles generally have increased in the past two years.⁵² Therefore, it may be reasonable for incumbent LECs to seek more protection from risk of nonpayment than the protections provided in existing tariffs.

16. Although Verizon and other incumbent LECs are experiencing increased uncollectibles, we do not believe that the level of uncollectibles necessarily warrants additional deposit requirements. Our evaluation of BOC uncollectible rates, based on data compiled from BOC ARMIS filings for the past several years, suggests that BOC uncollectibles have risen in the past year, but nevertheless still amount to a small percentage of interstate access revenues.⁵³ The tables in Appendix B show BOC uncollectible rates for the past six years as a percentage and dollar amount of total interstate access revenues.

17. While uncollectibles may constitute a small percentage of revenues, these data suggest that the amount of money at risk due to uncollectibles is increasing, and the record in this proceeding further indicates that these amounts are becoming more significant as large access customers go bankrupt. SBC alleges, for example, that it could lose as much as \$300 million in the WorldCom bankruptcy.⁵⁴

18. We note, however, that incumbent LECs operating under price caps normally are considered subject to both the benefits and burdens of unconstrained earnings. Under price caps, carriers may retain high earnings in good years. Conversely, if uncollectibles rise during an economic downturn, this may reflect ordinary business risk endogenous to price caps that may reduce earnings. Data provided by opposing parties and our own evaluation of reported revenue data show that, in recent years, incumbent LECs operating under price caps have enjoyed historically high rates of return. For instance, in 2001, interstate rates of return for BellSouth, Qwest, SBC, and Verizon were approximately 19%, 22%, 21.5%, and 17%, respectively.⁵⁵ In contrast, in 1990, BellSouth, Qwest, SBC, and Verizon interstate rates of return were 13%, 14%, 13%, and 12%, respectively.⁵⁶

19. We also note that parties opposing the Verizon petition and incumbent LEC tariff revisions submit data indicating that bankruptcy proceedings are not affecting the incumbent LECs as adversely as claimed. Sprint, for example, states that all pre-bankruptcy petition debt owed to it by MPower was paid in full after MPower was reorganized and emerged from

⁵² See Appendix B.

⁵³ See *id.*

⁵⁴ *Petition for Emergency Declaratory and Other Relief*, WC Docket No. 02-202, Comments of SBC Communications, Inc. at 2 (filed Aug. 15, 2002). We do not know whether this total includes amounts billed but subject to dispute, or whether it includes intrastate and interconnection uncollectibles in addition to unpaid interstate access charges.

⁵⁵ See ARMIS: Report 43-01, Table I, Column (h). These data reflect current mergers between Bell Atlantic and GTE, now Verizon; Ameritech, Southwestern Bell, Pacific Telesis, and Southern New England Telephone, now SBC; and US West and Qwest, now Qwest. See also *Petition for Emergency Declaratory and Other Relief*, WC Docket No. 02-202, Opposition of AT&T Corp. at 2, 8 (filed Aug. 15, 2002) (*AT&T Opposition*) (stating that the BOCs earned rates of return on interstate special access services from 21 to 55 percent in 2001); WorldCom Opposition at 2-3 (filed Aug. 15, 2002) (*WorldCom Opposition*).

⁵⁶ ARMIS: Report 43-01, Table I. Price cap carriers are protected against low earnings through the availability of the low end adjustment, exogenous adjustments, and above-cap filings. See para. 9, *supra*.

bankruptcy.⁵⁷ MPower confirms that it paid all such pre-petition debt.⁵⁸ An opposition filed by a group of competitive LECs demonstrates that bankruptcy courts generally are ensuring that incumbent LECs providing continuing service to carriers that have filed for bankruptcy protection are receiving adequate assurance of payment.⁵⁹ For example, in many bankruptcy cases involving telecommunications carriers, the courts have used their discretion to treat telecommunications services as administrative expenses receiving priority above all other claims, or require bankrupt carriers to pay a deposit (amounting to one or two weeks of service) or make accelerated or advance payments.⁶⁰ Such orders also allow creditors to terminate service to nonpaying customers on short notice.⁶¹ Other commenters that are in or have been through a bankruptcy proceeding, including WorldCom, Global Crossing, and MPower, oppose the Verizon petition and tariff filings, and assure us that, despite their distressed financial condition, their first priority is to continue serving their customers. In order to do so, they must keep current their interstate access accounts with incumbent LECs.⁶² MPower adds that creditors continued to be paid throughout its bankruptcy proceeding, including for pre-petition debt.⁶³

20. For all of these reasons, we believe that the bad debt problem that incumbent LECs are facing may be serious and may warrant increased protection against nonpayment, even if the bad debt problem is not of the magnitude suggested by some commenters in this and the tariff proceedings. When reviewing the proposed tariff revisions, Commission precedent requires that we balance the incumbent LECs' exposure to uncollectibles against the burdens that additional deposits would place upon incumbent LEC customers. We must also ensure that the additional protections are narrowly targeted to meet directly the risk of nonpayment.⁶⁴

⁵⁷ *Ameritech, Tariff FCC No. 2, Transmittal No. 1312, Pacific Bell, Tariff FCC No. 1, Transmittal No. 77; SNET, Tariff FCC No. 39, Transmittal No. 772, SWBT, Tariff FCC No. 73, Transmittal No. 2906, Petition of Sprint to Reject or Alternatively Suspend and Investigate at n.1 (filed Aug. 9, 2002).*

⁵⁸ *Petition for Emergency Declaratory and Other Relief, WC Docket No. 02-202, Comments of MPower Communications Corp. in Opposition to Emergency Petition of Verizon at 3 (filed Aug. 15, 2002) (MPower Comments).*

⁵⁹ CTC et al. Opposition at 8 and Exh 1.

⁶⁰ *Id.*

⁶¹ *Id.* at 8 (citing *Network Plus Corp. and Network Plus, Inc.*, Debtors, Chapter 11 Case No. 02-20341 (Bankr. D. Del. 2002)).

⁶² *Petition for Emergency Declaratory and Other Relief, WC Docket No. 02-202, WorldCom Opposition at 3, 6; WorldCom Reply Comments at 3 (filed Aug. 22, 2002) (WorldCom Reply); Comments of Global Crossing North America, Inc. at 1 (filed Aug. 15, 2002) (Global Crossing Comments); Reply Comments of Global Crossing North America, Inc. at 2 (filed Aug. 22, 2002); MPower Comments at 3, 6.*

⁶³ MPower Comments at 2-3.

⁶⁴ *Access Tariff Order, 97 FCC 2d at 1169; Annual 1987 Access Tariff Order, 2 FCC Rcd at 304, 318.* Some opponents assert that revised deposit, advance payment, or notice conditions constitute material changes in term contracts and that incumbent LECs must demonstrate substantial cause to implement such changes. *See, e.g., BellSouth Tariff FCC No. 1, Transmittal No. 657, WorldCom Petition to Reject or, in the Alternative, Suspend and Investigate at 13-15 (filed July 26, 2002); Petition to Reject or Suspend and Investigate at 5-6 (U.S. LEC Corp.) (filed July 26, 2002); Petition to Reject or, Alternatively, to Suspend and Investigate at 8 (ITC^DeltaCom Communications, Inc., KMC Telecom Holdings, Inc., NewSouth Communications Corp., NuVox Communications, Inc., and XO Communications, Inc.) (filed July 26, 2002).* Whether incumbent LECs are required to meet this burden in addition to demonstrating that their tariff revisions are just, reasonable and non-discriminatory depends on the language of each individual tariff, and we make no finding regarding the incumbent LECs' need to, or likelihood

21. We recognize that incumbent LECs have legitimate concerns about rising uncollectibles. Nonetheless, we are concerned about the potential for discrimination posed by the additional deposit provisions they propose. We believe that the criteria listed in the various tariff revisions for triggering an increased deposit, advance payment, or shortened notice period may not be as objective as the incumbent LECs claim. These criteria could be used to disadvantage a competitor vis-à-vis the incumbent LEC's own retail operations, or a large retail end-user customer who purchases interstate access. Broad, subjective triggers that permit the incumbent LEC considerable discretion in making demands, such as a decrease in "credit worthiness" or "commercial worthiness" falling below an "acceptable level," are particularly susceptible to discriminatory application. We are also concerned by opponents' claims that almost no competitive carrier, including large carriers such as AT&T, would escape a deposit demand triggered by a low, downgraded, or potentially downgraded rating of its debt securities.⁶⁵ Opponents further claim that almost all carriers with debt securities ranked below investment grade pay their interstate access bills on time, and that even bankrupt carriers continue to pay their access bills so that they can continue to serve their customers.⁶⁶

22. Given that the risk to incumbent LECs of nonpayment and further bankruptcies may be smaller than many incumbent LECs assumed when they filed their proposed tariff revisions and responded to Verizon's petition, we are concerned that the current proposals are not narrowly tailored to meet the incumbent LECs' need for additional protection from nonpaying customers without unduly disrupting the operations of their competitors in general. The proposed tariffs appear to provide incumbent LECs a great deal of discretion in determining which customers will or will not be subjected to these burdens, and thus would have the potential to be used in a discriminatory manner against competitors. The proposed revisions are broadly drawn in that they appear to affect a broad array of access customers, not only those customers that pose a risk of nonpayment.

23. Commenters opposing Verizon's petition suggest that the potential burdens the proposed tariffs might place on customers, and particularly customers offering services that compete directly with incumbent LEC services, could be substantial. Several opponents assert that increased deposit demands would likely result in even more telecommunications bankruptcies.⁶⁷ Many of the competitive carriers in today's telecommunications industry are not yet making profits, have small reserves to offset additional deposits, and find the prospect of raising additional capital, especially on the short, 10- or 15-day notice periods specified in some of the proposed tariffs, daunting if not overwhelming. These carriers assert that it would simply

of, demonstrating substantial cause here. See *RCA Communications, Inc., Revisions to Tariff FCC Nos. 1 and 2, Transmittal Nos. 191 and 273*, CC Docket No. 80-766, Memorandum Opinion and Order, 94 FCC 2d 1338 (1983).

⁶⁵ *Petition for Emergency Declaratory and Other Relief*, WC Docket No. 02-202, Comments of Time Warner Telecom at 5 (filed Aug. 15, 2002) (*Time Warner Telecom Comments*); Global Crossing Comments at 6; Comments of Covad Communications Company at 5 (filed Aug. 15, 2002) (*Covad Comments*); Reply Comments of AT&T Corp. at 7 (filed Aug. 22, 2002) (*AT&T Reply*).

⁶⁶ *Petition for Emergency Declaratory and Other Relief*, WC Docket No. 02-202, WorldCom Opposition at 3, 6; WorldCom Reply at 3; Global Crossing Comments at 1; Global Crossing Reply at 2; MPower Comments at 3, 6.

⁶⁷ *Petition for Emergency Declaratory and Other Relief*, WC Docket No. 02-202, Global Crossing Comments at 6; Opposition of Nextel Communications, Inc. to Verizon's Petition for Emergency Declaratory and Other Relief at 3, 8 (filed Aug. 15, 2002) (*Nextel Opposition*); MPower Comments at 2; Opposition (National ALEC Association/Prepaid Communications Association) at n. 27 (filed Aug. 15, 2002) (*NALA/PCA Comments*); Time Warner Telecom Comments at 5; Covad Comments at 2, 7.

be impossible for them to raise the hundreds of thousands or millions of dollars in increased deposit demands that they would face if their various access providers were permitted to begin demanding deposits.⁶⁸ They state that attempting to raise such capital could trigger a demand for immediate payment under existing loan covenants.⁶⁹ Commenters also state that whatever cash is available to them is needed to fund current business operations and planned future expansions.⁷⁰

24. The opponents' descriptions of the difficulties they face in obtaining timely and accurate bills from the incumbent LECs underscore our concerns regarding the burdens the proposed tariffs would place on access customers. It is apparent from these descriptions that interstate access billing is a complex and time-consuming process for both service provider and customer. Several opponents describe interstate access bills that run to tens of thousands of pages and state that they receive up to 1700 such bills per month.⁷¹ These bills often arrive several days after the bill date that starts the clock on the time allowed to pay the bill, which, under current tariffs, is 30 days. MPower, for example, states that it typically receives mailed bills up to 12 days after the bill date, and electronic bills up to 5 days after the bill date.⁷² Customers often find numerous inaccuracies after reviewing bills. MPower states that it typically takes incumbent LECs several months accurately to reflect rate changes and changes in number of circuits ordered in their bills.⁷³ Time Warner Telecom states that it has successfully disputed \$13 million in interstate access bills with incumbent LECs since 2001 -- the entirety of this amount was found to be due to incumbent LEC billing error.⁷⁴

25. Under these circumstances, we encourage incumbent LECs to explore narrower options than those proposed in Verizon's petition to protect themselves from risk of nonpayment, and to strive to improve the accuracy and timeliness of their interstate access bills. The claims regarding lateness and inaccuracy of incumbent LEC interstate access bills, which are unrefuted by the incumbent LECs, would suggest that any shortened notice period should be tied to timely arrival of the bill, and that disputed amounts should be excluded from any amount considered by the incumbent LEC to be overdue. We also encourage incumbent LECs to discuss with their customers more creative and mutually acceptable ways to deal with the risk of nonpayment. We commend BellSouth and various competitive LECs on their extended effort to frame

⁶⁸ *Petition for Emergency Declaratory and Other Relief*, WC Docket No. 02-202, AT&T Opposition at 18; Global Crossing Comments at 6; Comments Opposing Verizon's Petition for Emergency Declaratory and Other Relief (Evercom Systems, Inc.) at 6 (filed Aug. 15, 2002); Reply Comments of Sprint Corporation at 2 (filed Aug. 22, 2002).

⁶⁹ *BellSouth Tariff FCC No. 1, Transmittal No. 657*, Petition to Reject or Suspend and Investigate Proposed Tariff Revisions, (US LEC) (filed July 26, 2002).

⁷⁰ *Petition for Emergency Declaratory and Other Relief*, WC Docket No. 02-202, Comments of the Association for Local Telecommunications Services at 5 (filed Aug. 15, 2002).

⁷¹ See, e.g., *Petition for Emergency Declaratory and Other Relief*, WC Docket No. 02-202, MPower Comments at 4 & n. 3; Time Warner Telecom Comments at 7; AT&T Reply at 7.

⁷² *Petition for Emergency Declaratory and Other Relief*, WC Docket No. 02-202, MPower Comments at 4.

⁷³ *Id.*

⁷⁴ *Petition for Emergency Declaratory and Other Relief*, WC Docket No. 02-202, Time Warner Telecom Comments at 7. See also Covad Comments at 6; NALA/PCA Comments at 5; MPower Comments at 4.

compromise tariff language satisfactory to all sides.⁷⁵ We note that this effort has led to resolution of many contentious issues.

26. We also recommend that incumbent LECs consider whether the following possible tariff provisions might address the risk of nonpayment, making additional deposits unnecessary:

- Revise interstate access tariffs to define the “proven history of late payment” trigger for requiring a deposit to include a failure to pay the undisputed amount of a monthly bill in any two of the most recent twelve months, provided that both the past due period and the amount of the delinquent payment are more than *de minimis*.⁷⁶
- Reduce the notice period for refusal or discontinuance of service from 30 days to some shorter period for customers that receive bills quickly enough to allow review and dispute.⁷⁷
- Accelerate billing cycles from 30 days to some shorter period to reduce exposure to pre-bankruptcy petition debt and other possible nonpayment.⁷⁸
- Bill in advance for usage-based services currently billed in arrears, based on average usage over a sample period, perhaps phasing in the first advance bill over a period of several months.

27. The record before us suggests that tariff provisions similar to these three recommended additional protections of accelerated billing, advance billing, and shortened notice tied to timely bills may more appropriately balance the competing interests of incumbent LECs seeking greater protection against nonpayment and their customers desiring to avoid burdensome requirements for additional cash in a period of tight credit. In addition, we recommend that the incumbent LEC tariffs specify that advance billing is triggered only by concrete, objective standards that are narrowly tailored to target only those customers that pose a genuine risk of nonpayment, in order to prevent any unreasonable discrimination among customers.

28. We further note that the recommended additional protections of accelerated and advance billing may impose an administrative burden on incumbent LECs to modify their billing

⁷⁵ *BellSouth Tariff FCC No. 1, Transmittal No. 657*, CompTel July 1 *Ex Parte* Letter at 1; BellSouth Reply at 2-3 (filed Aug. 1, 2002).

⁷⁶ See, e.g., AT&T Dec. 9 *Ex Parte* Letter at 1.

⁷⁷ We note, for example, that SBC’s proposed tariff would reduce the notice period for certain customers from the current 30 days to 15 days. See, e.g., *SWBT, Tariff FCC No. 73, Transmittal No. 2906*, 6th Revised Page 2-20, section 2.1.6(A).

⁷⁸ Bankruptcy courts frequently require utilities serving bankrupt customers to bill for their services bi-weekly. See *Petition for Emergency Declaratory and Other Relief*, WC Docket No. 02-202, Opposition of CTC Communications Corp., DSL.net Communications, LLC, Focal Communications Corp., Level 3 Communications, LLC, Pac-West Telecomm, Inc., and US LEC Corp. at 8 and Exh. 1 (filed Aug. 15, 2002) (*CTC et al. Opposition*); *BellSouth Tariff FCC No. 1, Transmittal No. 657*, Letter from Jonathan D. Lee, Vice President, Regulatory Affairs, CompTel to Tamara Preiss Chief, Pricing Division [sic] at 2 (filed July 1, 2002) (CompTel July 1 *Ex Parte* Letter).

systems, or produce bills manually, in order to generate bills more frequently and bill for usage-based services in advance. We leave to individual carriers the calculation of the costs of undertaking these billing system modifications as compared to the potential benefits that flow from these additional protections. We also note that the Commission retains jurisdiction to adjudicate complaints regarding the application of any tariff revisions pursuant to section 208 of the Act.⁷⁹ These cost and enforcement restraints would likely further prevent incumbent LECs from imposing accelerated or advance billing in an unreasonably discriminatory manner.

29. We believe that defining “proven history of late payment” in the more precise manner discussed above is consistent with the statute and Commission rules, which require that tariff language be “clear and explicit.”⁸⁰ In addition, we believe that shortened notice tied to timely arrival of the interstate access bill has the advantage of giving incumbent LECs greater protection against nonpayment while simultaneously imposing greater discipline on the incumbent LECs’ billing and collection process. Excluding disputed amounts from any amount considered to be in arrears appears to be consistent with current incumbent LEC practice and prevents customers from being forced to pay disputed amounts to avoid service disruptions. We also note that, for many customers, most of the interstate access service purchased is not based on usage and currently is billed in advance.⁸¹ Therefore, advance billing for usage-based services will impose a limited additional burden on interstate access customers. To reduce further the burden of additional advance billing on customers who may have limited cash reserves, we suggest that incumbent LECs consider phasing in the first advance bill over a period of several months.

IV. CONCLUSION

30. In conclusion, we understand the heightened uneasiness of incumbent LECs and their desire to increase their protection from nonpayment. We do not believe that broadly crafted measures applicable to all customers, such as additional deposits, are necessary to strike the balance between the interests of incumbent LECs and their customers. In balancing the incumbent LECs’ desire for additional protection against the potential burden on customers of additional deposits that could amount to millions of dollars, we believe that narrower protections such as accelerated and advanced billing would be more likely to satisfy statutory standards. We believe that shortened intervals for refusal and discontinuance of service should be tied to timely delivery of accurate bills to interstate access customers. Therefore, we recommend that incumbent LECs seeking to address rising uncollectibles through interstate access tariff revisions carefully consider the general guidance provided in this policy statement.

FEDERAL COMMUNICATIONS COMMISSION

Marlene H. Dortch
Secretary

⁷⁹ 47 U.S.C. § 208.

⁸⁰ See 47 C.F.R. §§ 61.2 and 61.54(j).

⁸¹ See *Petition for Emergency Declaratory and Other Relief*, WC Docket No. 02-202, CompTel July 1 *Ex Parte* Letter at 3 (describing special access [billed in advance] as “the primary access service that most [competitive] LECs use”).

APPENDIX A
COMMENTING PARTIES

American Public Communications Council
Association for Local Telecommunications Services
AT&T Corporation
BellSouth Corporation
Competitive Telecommunications Association
Covad Communications Company
CTC Communications Corporation; DSL.net Communications, LLC; Focal Communications Corporation; Level 3 Communications, LLC; Pac-West Telecomm, Inc.; US LEC Corporation (filing jointly)
Evercom Systems, Inc.
Fred Williamson and Associates, Inc., (on behalf of Chouteau Telephone Company; H&B Telephone Communications, Inc.; Moundridge Telephone Company, Inc.; Pine Telephone Company, Inc.; Pioneer Telephone Association, Inc.; Totah Telephone Company, Inc.; Twin Valley Telephone, Inc.)
Global Crossing North America, Inc.
Mid-Size Carrier Group (ALLTEL Communications, Inc.; CenturyTel, Inc.; FairPoint Communications, Inc.; Citizens Communications Company, including Frontier and Citizen; Iowa Telecommunications Services, Inc.; Madison River Telephone Company, LLC; Rock Hill Telephone Company d/b/a/ COMPORIUM Communications; Roseville Telephone Company; TDS Telecommunications Corporation; The Concord Telephone Company; Valor Telecommunications Enterprises, LLC; Virgin Islands Telephone Corporation d/b/a/ Innovative Telephone
IDT Corporation
Independent Alliance
International Prepaid Communications Association, Inc.
MPower Communications Corporation
National ALEC Association/Prepaid Communications Association
National Exchange Carrier Association
National Telecommunications Cooperative Association
New York State Department of Public Services
Nextel Communications, Inc.
SBC Communications, Inc.
Sprint Corporation
TelStar International, Inc.
Time Warner Telecom Corporation
United States Telecom Association
WorldCom, Inc.

APPENDIX B

Uncollectibles as a Percentage of Interstate Access Revenue

BOC	2001	2000	1999	1998	1997	1996
BellSouth	1.43%	.77%	.36%	.43%	1.06%	.85%
Qwest	.49%	.19%	.75%	.92%	.59%	.60%
SBC	.53%	.36%	.27%	.32%	.34%	.39%
Verizon	1.28%	.63%	.62%	.44%	.46%	.53%

Total Amount of Interstate Access Uncollectibles* (Total Amount of Interstate Access Revenues) (\$000)

BOC	2001	2000	1999	1998	1997	1996
BellSouth	\$62,089 (\$4,356,364)	\$31,118 (\$4,035,725)	\$14,062 (\$3,906,078)	\$16,142 (\$3,778,342)	\$37,868 (\$3,575,811)	\$28,280 (\$3,346,048)
Qwest	\$16,427 (\$3,364,912)	\$6,130 (\$3,207,210)	\$22,690 (\$3,009,847)	\$25,179 (\$2,747,211)	\$15,544 (\$2,647,346)	\$15,465 (\$2,581,948)
SBC	\$47,686 (\$9,075,583)	\$31,068 (\$8,662,786)	\$21,447 (\$7,964,024)	\$23,256 (\$7,374,088)	\$23,136 (\$6,784,533)	\$25,936 (\$6,698,309)
Verizon	\$138,325 (\$10,776,833)	\$65,214 (\$10,298,297)	\$61,781 (\$9,978,548)	\$41,933 (\$9,560,662)	\$41,956 (\$9,105,652)	\$46,830 (\$8,885,709)

*The dollar amounts for interstate access revenue were calculated by subtracting the revenue attributed to interexchange traffic (row 1020 and column v of ARMIS Report 43-01, Table I, Cost and Revenue Table) from the interstate portion of network access services revenue (row 1020 and column h). The dollar amounts for uncollectible interstate access revenue were calculated by subtracting uncollectible interexchange revenue (row 1060 and column v) from the interstate portion of uncollectible revenue (row 1060 and column h). Mergers and acquisitions are reflected in the year in which they occurred.

